Debt Service Funds

Fund Purpose

This fund records the accumulation of resources for, and the payment of, long-term debt principal and interest not serviced by the proprietary funds, with the exception of General Fund, which is shown in the General Fund debt service section of the Five-Year Financial Plan. The applicable specific revenues, expenditures, and fund balance of the Debt Service Fund are described below:

Debt Service Fund Revenues and Transfers-In

Secondary Property Tax represents the portion of the property tax that is exclusively limited to pay debt service by Arizona State Statue. While the growth is unlimited, the City's use of this portion of the property tax is restricted by State Statue to solely pay debt service on voter approved general obligation bonds. The debt service for bonds already issued, plus estimated debt service for bonds planned to be issued within the budgeted fiscal year, is levied. Secondary property tax accounts for 54.1% of the total Debt Service Fund resources. The FY 2004/05 revenue forecast of $26.9 million represents an increase of nearly $4.2 million or 18.2% from the FY 2003/04 year-end estimate of $22.7 million.

Secondary Property Tax
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/ Estimate*
2004/05	$26.9	$26.9*
2003/04	$25.5	$22.7*
2002/03	$22.8	$22.4
2001/02	$21.9	$21.6

Special Assessment Revenue is estimated to be $2.8 million for FY 2004/05, which is $0.1 million less than the FY 2003/04 year-end estimate based on scheduled debt repayments. The $2.8 million represents approximately 5.6% of the total debt service resources resulting from billings to the property owners within an Improvement District. Districts are formed when owners desire improvement to their property, such as roads, water lines, sewer lines, streetlights, or drainage. The expenditure of funds to construct the specific capital improvements and to pay the debt service on bonds is appropriated as part of the City's budget; however, the debt service is repaid by the property owners through a special assessment on their improved property. Improvement District debt will be permitted only when the full cash value of the property, as reported by the Maricopa County Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3:1 prior to issuance of debt and 5:1 or higher after construction of improvements. Should the full cash value to debt ratio not meet the minimum requirements, property value may be determined by an appraisal paid for by the applicant and administered by the City. In addition, per adopted financial policy, the City's cumulative improvement district debt will not exceed 5.0 percent of the City's secondary assessed valuation. Bonds issued to finance improvement district projects will not have maturities longer than ten years.

Special Assessment Revenue
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/ Estimate*
2004/05	$2.8	$2.8*
2003/04	$2.9	$2.9*
2002/03	$2.6	$2.3
2001/02	$3.1	$2.3

Transfers-In for FY 2004/05 of approximately $20.0 million will be transferred in from the 1995 Preservation Privilege Tax Fund (.20%) (Special Revenue Fund) to pay debt service of $13.1 million for Preserve General Obligation Bonds and $6.9 million for Preserve Revenue Bonds issued for land acquisition in the McDowell Mountain Sonoran Preserve.

Debt Service Fund Expenditures By Debt Type

General Obligation (GO) / Preserve GO Bonds Debt Service totals $40.0 million for FY 2004/05, which represents an increase of nearly $4.9 million or 14.0% from the FY 2003/04 adopted budget. The Preserve GO Bonds represent debt issuances related to land acquisition in the McDowell Mountain Sonoran Preserve. Preserve debt is repaid by a dedicated .20% sales tax authorized by voters in 1995. The increase in the debt service expenditure is attributable to the May 2004 GO debt issuances of $48.0 million for a variety of capital improvements and $65.4 million for the continuing purchase of the McDowell Sonoran Preserve.

General Obligation Bond Debt Service
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/ Estimate*
2004/05	$40.0	$40.0*
2003/04	$35.1	$31.9*
2002/03	$32.4	$31.4
2001/02	$30.3	$25.2

Special Assessment Debt Service totals $2.8 million for FY 2004/05, which reflects a $0.1 million decrease from the FY 2003/04 adopted budget. Special Assessment Bonds are issued for property owners desiring improvements to their property such as roads, water lines, sewer lines, streetlights, or drainage. The expenditure of funds to construct the specific capital improvements and to pay the debt service on bonds is appropriated as part of the City's budget; however, the debt service is repaid by the property owners through a special assessment on their improved property. The City's debt management policy requires that the full cash value of the property to debt ratio is a minimum of 3:1 prior to issuance of debt and at least 5:1 after construction of the improvements.

Special Assessment Debt Service
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/ Estimate*
2004/05	$2.8	$2.8*
2003/04	$2.9	$2.9*
2002/03	$2.6	$2.3
2001/02	$3.1	$2.6

Preserve Revenue Authority Bonds Debt Service obligations for FY 2004/05 total $6.9 million, which is equivalent to the FY 2003/04 adopted budget. The Preserve Revenue Authority Bonds represent prior debt issuances related to land acquisition in the McDowell Mountain Sonoran Preserve. The debt service remains level in FY 2004/05, as no new bonds of this type will be issued. All future preserve debt will be repaid from the dedicated 2004 Preservation Privilege (Sales) Tax (.15%) authorized by the voters on May 18.

Preserve Revenue Bonds Authority Debt
Adopted Budget to Actual/Estimate*
(in millions)

Fiscal Year	Adopted Budget	Actual/ Estimate*
2004/05	$6.9	$6.9*
2003/04	$6.9	$6.9*
2002/03	$6.9	$6.9
2001/02	$6.9	$6.8

Revenues Over/(Under) Expenditures

The excess of total expenditures and transfers out over total revenues and transfers in FY's 2004/05 through 2006/07 is the result of planned uses of beginning fund balance and /or defeasances of outstanding debt.

Debt Service Fund Balance

The Debt Service Fund balance varies primarily due to the timing of debt issuances and related repayment schedule. The ending FY 2004/05 fund balance is projected to be $10.5 million, which is equal to the FY 2003/04 year-end estimate. Based upon favorable market conditions, the fund balance may be used to defease outstanding debt.